PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ITEM 15

AGENDA ID# 14852

ENERGY DIVISION **RESOLUTION E-4787 (Rev. 1)**

May 26, 2016

RESOLUTION

Resolution E-4787. Adoption of electricity prices consistent with Decision 15-07-001.

PROPOSED OUTCOME:

- San Diego Gas & Electric Company's (SDG&E's) Advice Letter 2861-E, Implementation of SDG&E's 2016 Residential Rate Design Reform Pursuant to Decision 15-07-001 is approved.

SAFETY CONSIDERATIONS:

- There is no impact on safety.

ESTIMATED COST:

- There is no incremental cost associated with this Resolution.

By SDG&E Advice Letter (AL) 2861-E, filed February 29, 2016.

SUMMARY

On February 29, 2016, San Diego Gas & Electric Company (SDG&E) filed Advice Letter 2861-E (advice letter) seeking changes to its pricing for residential sales of electricity and consolidation of pricing tiers for residential customers in accordance with Decision (D.) 15-07-001 (the Decision). The advice letter proposed the following changes to residential electric rates, to be effective April 1, 2016:

- Existing tiers 1 and 2 and tiers 3 and 4 would be respectively collapsed into a new tier 1 for all residential electricity sales between 0% and 130% of baseline quantities and a new tier 2 for all residential electricity sales above 130% of baseline quantities.

- The price for new summer tier 1 electricity (up to 130% of baseline) would increase 23.1% relative to former tier 1 electricity (up to 100% of baseline) prices as of April 1, 2015.

- As a result of the collapse of tiers 3 and 4 into a single tier 2, the price for new summer tier 2 electricity (≥ 130% baseline) would decrease 11.7% relative to former tier 3 (between 130% and 200% of baseline) prices as of as of April 1, 2015 and would decrease 15.9% relative to former tier 4 (above 200% baseline) prices as of April 1, 2015.

As discussed in detail below, SDG&E's advice letter fulfills the requirements of the Decision as modified by this resolution and is approved subject to this resolution's findings and ordering paragraphs. Due to factors that were not anticipated at the time of the Decision's adoption last year, it is impossible for SDG&E to simultaneously adhere to the Decision's requirements to 1) cap 2016 tier 1 rate increases to a given percentage and 2) maintain a glidepath that moves towards reducing the ratio between the tiers.

This resolution approves a 5% increase over the September 1, 2015 tier 1 rate, which results in a tier 1 rate of $0.190 and a tier 2 rate of $0.391, and a tier differential of 1:2.07. These rates minimize the bill impacts on tier 1 customers while still making forward progress towards tier consolidation.

BACKGROUND

Assembly Bill (AB) 327 (Perea, 2013) set in motion a series of reforms to residential electricity rates in California. Among these was the authorization for the CPUC to consider collapsing the number of tiers used to price residential electricity.

The CPUC issued Decision (D.) 15-07-001 (the Decision) last year implementing reforms to the default tiered price structure for residential electricity. The Decision began a process under which a time-of-use (TOU) system may become the default residential electricity price structure in 2019. Prior to this time, the various tiers for residential pricing were to be restructured and their differentials reduced through a glidepath established for each IOU. The approved glidepath for SDG&E appears below.[1]

Approved Glidepath for Tier Consolidation (SDG&E)

	Current	2015	2016	2017	2018	2019
Number of Tiers	4 tiers	3 tiers	2 tiers	2 tiers	2 tiers	2 tiers
Usage covered	Tier 1: 0-100% of BQ Tier 2: 101-130% of BQ Tier 3: 131-200%of BQ Tier 4: 200% + of BQ	Tier 1: up to 100% of BQ Tier 2: 101-130% of BQ Tier 3: above 130% of BQ	Tier 1: up to 130% of BQ Tier 2: above 130% of BQ	Tier 1: up to 130% of BQ Tier 2: above 130% of BQ	Tier 1: up to 130% of BQ Tier 2: above 130% of BQ	Tier 1: up to 130% of BQ Tier 2: above 130% of BQ
Tier Differential		1:1.13:2.18	1:1.66	1:1.405	1:1.351	1: 1.25
SUE Surcharge[596]	N/A	N/A	N/A	1:1.637	1:1.9	1:2.19

In D. 15-07-001, special attention was paid to SDG&E's glidepath as it differs significantly from those proposed for the other two utilities. Under SDG&E's previous tiered rate structure, the differences between tier 1 and 2 rates and tier 3 and 4 rates were very small. For this reason, SDG&E proposed to collapse Tiers 1 and 2 to form a new tier 1 and tiers 3 and 4 into a new tier 2. The Commission generally agreed with this reasoning, accepting that "because the tiers that are being combined are already close together, the bill impacts for lower tier customers will be slightly less than the increase seen in the SCE and PG&E tier consolidation proposals."[2]

Another important feature of the Decision's mandated glidepath was the imposition of a cap on the annual increase in tier 1 prices. This meant that tier 1 increases resulting from the tier consolidation were to be capped at the change in the residential average rate (RAR) plus 5% relative to rates for the prior 12 months.[3]

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[1] D. 15-07-001 at 293. The acronym "BQ" stands for "baseline quantity" of electricity available to each PG&E customer in a month. The size of the BQ depends on which climate zone a customer lives in. Hotter climate zones tend to have larger BQs. The term "SUE Surcharge" means Super User Electric Surcharge and will cover monthly usage in excess of 400% of baseline starting in 2017.

[2] D.15-07-001 at 293.

[3] D.15-07-001 at 277.

The Decision also directed SDG&E to file a Tier 2 advice letter (AL) in the fall of 2015 setting out future predicted rates according to the glidepath. SDG&E filed AL 2784-E on September 1, 2015. SDG&E's estimated rates from AL 2784-E appear below:

	Pre-9/1/2015 Implementation	9/1/2015	2016	2017	2018	2019	2020
Summer (Cents/kWh)							
Baseline	17.4	18.1	22.1	23.7	23.7	24.1	24.0
101% to 130%	20.5	20.5	22.1	23.7	23.7	24.1	24.0
131% to 200%	40.4	39.6	36.9	33.4	32.2	30.2	30.1
201% to 400%	42.4	39.6	36.9	33.4	32.2	30.2	30.1
Above 400%	N/A	N/A	N/A	38.9	45.2	52.9	52.7
Winter (Cents/kWh)							
Baseline	17.4	16.5	20.0	21.2	21.1	21.3	21.2
101% to 130%	20.5	18.7	20.0	21.2	21.1	21.3	21.2
131% to 200%	36.8	36.1	33.3	29.9	28.6	26.7	26.6
201% to 400%	38.8	36.1	33.3	29.9	28.6	26.7	26.6
Above 400%	N/A	N/A	N/A	34.8	40.3	46.7	46.5
Minimum Bill ($/day)	.170	.329	.329	.329	.336	.343	.350

*Note: D.15-07-001 provides a glidepath for Tier Consolidation through 2019. 2020 rates reflect the 2019 tier differentials and include adjustments reflecting baseline, CARE discount, as well as CPI adjustment to minimum bill.

Adhering to SDG&E's glidepath results in several increases to the tier 1 rate that are higher than 5% (22.1% from 9/1/2015 to 2016, and 7.2% from 2016 to 2017). AL 2784-E was suspended for further analysis stemming from the protests detailed below.

On February 29th, 2016, SDG&E filed AL 2861-E to implement the 2016 step of the glidepath. This next phase collapses tiers 1 and 2 into a single tier covering all usage up to 130% of baseline. The rates proposed in AL 2681-E are very close to the 2016 glidepath rates filed in AL 2784-E, where tier 1 increases by more than 5%.

Schedule DR			
Summer	**Current***		**April 1, 2016**
Tier 1 ($/kWh)	0.18626	Tier 1 ($/kWh)	0.21199
Tier 2 ($/kWh)	0.21198		
Tier 3 ($/kWh)	0.40896	Tier 2 ($/kWh)	0.35424
Summer Tier Differential	1:1.13:2.18		1:1.66
Winter			
Tier 1 ($/kWh)	0.17138	Tier 1 ($/kWh)	0.19242
Tier 2 ($/kWh)	0.19504		
Tier 3 ($/kWh)	0.37627	Tier 2 ($/kWh)	0.32155
Winter Tier Differential	1:1.13:2.18		1:1.66
Annual Tier Differential	1:1.13:2.18		1:1.66

*Based on rates effective January 1, 2016 per AL 2840-E.

The Decision approves a glidepath for SDG&E with 1) set tier differentials and also 2) a requirment that tier 1 increases be capped at the change in RAR plus 5%. The issue is how to balance the two competing goals of the Decision's approved glidepath when those goals cannot be simultaneously fulfilled. This resolution addresses this central question.

NOTICE

Notice of the SDG&E AL 2861-E was made by publication in the CPUC's Daily Calendar. SDG&E states that their advice letter was distributed in accordance with General Order (GO) 96-B, and was also served on the R.12-06-013 service list.

PROTESTS

On September 21, 2015, ORA filed a protest to AL 2784-E, stating that SDG&E's rates ignored the rules specified in the Decision and "simply followed the tier ratios suggested in D.15-07-001."[4] ORA also pointed out that the tier 1 rate exceeded the cap of RAR plus 5 % relative to the previous 12 months and recommended that SDG&E refile with a more moderate glidepath.

[4] Protest of the Office of Ratepayer Advocates to SDG&E Advice Letter No.2784-E, September 21, 2015 at 2.

SDG&E countered that the rates are consistent with the glidepath and that the RAR plus 5% cap should only apply in the case of revenue requirement increases as ordered in D.15-07-001. Since the rates filed resulted in revenue neutrality in comparison to May 1, 2015 rates, they asserted that the rules under that heading did not apply.[5]

ORA reiterated these criticisms in its March 21, 2016 protest to AL-2861, and went further in recommending that the Commission not bring tier 1 rates up to the tier 2 price when compressing the tiers.[6]

DISCUSSION

SDG&E proposes the following rates for non-CARE and CARE residential customers in its advice letter. For simplicity, only summer rates are shown.

	SDG&E Summer Residential Rates	Price per kWh	Change from April 2015	Summer Tier Differential
Non-CARE	tier 1 (0-130% BQ)	$0.212	23.1%	1:1.66
	tier 2 (above 130% BQ)	$0.354	-11.7%	
CARE	tier 1 (0-130% BQ)	$0.128	14.3%	1:1.73
	tier 2 (above 130% BQ)	$0.221	10.8%	

In order to satisfy the Decision's requirement that the tier 2 to tier 1 ratio in 2019 is at most 1:1.25, SDG&E has opted to collapse tier 1 and tier 2 rates in 2016 as shown in the approved tier consolidation glidepath in the Decision.[7] The result is that tier 1 rates are projected to increase by 23.1% compared to April 2015.

However, the Decision mandates that tier 1 increases resulting from the tier consolidation are to be capped at the change in the residential average rate (RAR) plus 5% relative to rates for the prior 12 months.[8] SDG&E's RAR has not increased in the prior 12 months, so we use a cap of 5%.

[5] SDG&E's Reply to Protest of SDG&E Advice Letter 2784-E, September 28, 2015 at 3.

[6] Protest of the Office of Ratepayer Advocates to SDG&E Advice Letter No.2861-E, March 21, 2016 at 1.

[7] D.15-07-001 at 293.

[8] D.15-07-001 at 277.

Applying an RAR plus 5% increase to tier 1 rates effective April 1, 2015, as ORA proposes in their protest, results in tier 1 rate of $0.180, which is lower than the current effective tier 1 rate of $0.186. This contravenes the intent and spirit of the Decision to decrease the differential between upper and lower tiers each year. Thus, we must consider an alternate solution.

On September 1, 2015, SDG&E implemented the first step in its glidepath and increased tier 1 rates by 4.0%, resulting in a tier 1 rate of $0.181. The Decision intended for SDG&E to bring the tiers closer together with each step of the glidepath. Thus, it is reasonable to use the rates from the last step in the glidepath as the basis for the next step of the glidepath.

A 5% increase on the September 1, 2015 tier 1 rate, per AL 2783-E, would yield a tier 1 rate equaling $0.190 versus $0.212 as proposed by SDG&E in AL 2861-E. The resulting tier 1 rate is only 10.4% higher relative to the April 1, 2015 rate, rather than 23.1% higher, as would be the case under SDG&E's proposal. These rates result in a tier differential of 1:2.07.

SDG&E's CARE customers are exempt from Department of Water Resources Bond Charge (DWR-BC), California Solar Initiative (CSI) and the CARE Surcharge, and are then provided a line item discount. In accordance with SDG&E's CARE discount glidepath, the line item discount is 35% for this step of the glidepath.[9] The resulting CARE tier 1 rate would be $0.114 versus $0.128. The resulting CARE tier 1 rate is only 1.8% higher relative to the April 1, 2015 CARE tier 1 rate, rather than 14.3% higher.

This scenario attempts to minimize the bill impacts imposed on SDG&E residential customers while still making meaningful forward progress towards tier consolidation.

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[9] AL 2681-E at 5.

	April 15	9/1/2015 per AL-2783-E	1/1/2016 per consolidated filing	SDG&E per AL 2861-E	ORA proposal	Energy Division Proposal
Non-CARE Energy Charges						
0 to 100% BQ	$0.172	$0.181	$0.186	$0.212	$0.180	$0.190
100% to 130% BQ	$0.202	$0.205	$0.212	$0.212	$0.180	$0.190
130% to 200% BQ	$0.401	$0.396	$0.409	$0.354	$0.408	$0.391
Over 200% BQ	$0.421	$0.396	$0.409	$0.354	$0.408	$0.391
Tier 1 % Change from April 15		5.233%	8.140%	23.075%	4.884%	10.371%
Tier 1 % change from Sep-15			2.762%	17.122%	-0.331%	5.000%
Tier 1 % change from Jan-16				13.973%	-3.011%	1.919%
Tier Differential	1:2.45	1:2.19	1:2.19	1:1.66	1:2.27	1:2.07
CARE Energy Charges						
0 to 100% BQ	$0.112	$0.107	$0.110	$0.128	$0.108	$0.114
100% to 130% BQ	$0.131	$0.123	$0.126	$0.128	$0.108	$0.114
130% to 200% BQ	$0.199	$0.245	$0.253	$0.221	$0.256	$0.245
Over 200% BQ	$0.199	$0.245	$0.253	$0.221	$0.256	$0.245
Tier 1 % Change from April 15		-4.464%	-1.786%	14.286%	-3.571%	1.786%
Tier 1 % change from Sep-15			2.803%	19.626%	0.935%	6.542%
Tier 1 % change from Jan-16				16.364%	-1.818%	3.636%
Tier Differential	1:1.78	1:2.29	1:2.30	1:1.73	1:2.37	1:2.15

Based upon the need to adhere to D.15-07-001 guidelines, SDG&E's proposal for changes to the non-CARE and CARE tier compression glidepath is approved as outlined in Energy Division's proposal in the above table. Our decision in this resolution applies only to SDG&E's 2016 rate reform changes and does not apply to any other investor-owned utility.

COMMENTS

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the CPUC. Section 311(g)(2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day comment period for the draft of this resolution was neither waived nor reduced. Accordingly, this draft resolution was mailed to parties for comments.

SDG&E filed comments on May 6, 2016 and ORA filed comments on May 16, 2016. Their comments are summarized below.

SDG&E asserts that the draft resolution is flawed in six ways, as outlined below.

Concerning SDG&E's comment that the competing goals of rate reform addressed in the resolution have already been fully vetted in the proceeding, SDG&E mistakes the intent of the resolution. The resolution does not attempt to re-litigate the rate reform proceeding, but rather interpret the decision (D. 15-07-001) in that proceeding for the present circumstance where two mandates of that decision (the RAR plus 5% cap and the tier differentials in SDG&E's glidepath) cannot be simultaneously achieved. SDG&E's assertion that "[t]he Advice Letter that was filed by SDG&E is consistent with the requirements" [10] of the rate reform decision is simply incorrect. Indeed, it is precisely the fact that SDG&E's advice letter does not strictly comply with the decision that necessitates a formal resolution on SDG&E's advice letter. For SDG&E to assert that it has the right to interpret and adjust the terms of the rate reform decision to suit its objectives while simultaneously claiming that the CPUC does not have that authority (due to the fact that the subject matter has been "fully vetted" in a proceeding) is nonsense. Rather, in a case such as this, where the terms of a CPUC decision must be interpreted to authorize an advice letter, our interpretation of our own decision prevails over the opinions of a utility.

With respect to SDG&E's assertion that the resolution "undermine[s] the intent of AB327, and would dramatically delay implementation of the rate reform glidepath," [11] this again reveals SDG&E's interest in its own objectives for rate reform rather than any particular legal basis for rejecting the resolution. SDG&E

[10] SDG&E Comments at 2.

[11] SDG&E Comments at 2.

claims that the law was passed to give the CPUC the authority to provide relief for upper tier customers by, among other things, reducing tier differentials. SDG&E then goes on to state its own view of how fast these reforms should be implemented. In so doing, SDG&E appears to have ignored its own assertion that the CPUC has the authority under the law to determine the process for rate reform [see, e.g., SDG&E's footnote 10 which quotes from an Assembly Committee analysis of AB 327 that "[t]his bill allows PUC to adjust the residential electric rate structure"[12]. For SDG&E to argue that this reform is not fast enough erroneously concludes that the law gave the utility the authority to determine the pace of rate reform. The law does no such thing.

While we acknowledge that SDG&E has a particular view of the appropriate pace of tier collapse and rate reform, the law gives the CPUC the authority to determine the pace of that reform and we exercise that authority in this resolution. Far from undermining the intent of AB 327, by fully asserting CPUC authority over the pace of rate reform this resolution gives life to AB 327 by denying SDG&E the ability to arbitrarily set tier differentials and prices for its residential customers. Rate reform will proceed in SDG&E's territory, and the price for upper tier electricity will be brought closer to lower tier electricity over time. The decision explicitly states that "[t]he glidepath shall continue until the later of (i) January 1, 2019 or (ii) the year the 1:1.25 tier ratio is achieved,"[13] providing the CPUC with the flexibility to determine the pace and timing of this process, not SDG&E.

Turning to SDG&E's specific assertion that the 5% cap on Tier 1 price increases is inconsistent with AB 327, we note that the 5% cap is in addition to any revenue requirement increases experienced by the utility. This is why the decision refers to an RAR plus 5% cap. The cap does not have an absolute value of 5% but may be higher, as it was for PG&E in 2016. In PG&E's case, the 2016 cap on Tier 1 price increases was greater than 11% due to increases in its revenue requirement. SDG&E's arguments around the illegality of a strict 5% cap reflect a misreading of the nature of the Tier 1 cap mandated by the rate reform decision. The 2010-2014 data provided by SDG&E is therefore inapplicable, as the revenue requirement increases experienced by SDG&E during that period would have been applied to the Tier 1 rates under the model of the rate reform decision's

[12] SDG&E Comments at 3-4.

[13] D.15-07-001 at 294.

mandated cap. In short, it is a completely different cap compared to the one imposed by SB 695 and is therefore not contra to AB 327. While the RAR plus 5% cap may slow down the pace of tier collapse as desired by SDG&E, this is not a sufficient legal basis for asserting that the resolution imposes a policy contrary to AB 327.

SDG&E next challenges the resolution on the basis that its advice letter as submitted is consistent with the requirements of the rate reform decision. However, it is precisely because the consistency of the advice letter with the decision is debatable, and at the least requires an interpretation of the decision's mandates, that our interpretation of our own decision prevails over the opinion of SDG&E. Specifically, SDG&E fails to accept that the decision was clear that an RAR plus 5% cap applies to SDG&E Tier 1 price increases that are due to rate reform implementation. SDG&E's submission of illustrative rates in response to ALJ McKinney's July 3, 2015 email Ruling does not contradict such a mandate, and SDG&E offers no reasoning or argument as to why the RAR plus 5% cap would fail to apply in this case because of its submission of illustrative rates. The CPUC is therefore left in the position to decide how to apply the cap to SDG&E's proposed rate reform glidepath, which requires an interpretation of the decision that is at the heart of this resolution.

SDG&E claims that the September 1, 2015 reference point for the RAR plus 5% cap is inappropriate as it is "meaningless from a customer perspective." However, SDG&E fails to note that the decision intends for the cap to apply to rate changes driven by rate reform itself, rather than to rate changes due to other factors such as RDW implementations or FF&U revenue requirements. Because SDG&E's proposed rate changes in its advice letter are the first rate reform-driven changes since September 1, 2015, it is appropriate to use that date as the basis for applying the RAR plus 5% cap. As part of its argument regarding the timing of the cap's reference point, SDG&E again asserts that the pace of rate reform adopted by this resolution is too slow. In response we refer to our disposition of this argument above.

SDG&E next turns to the resolution's discussion of the CARE rates proposed by the advice letter. SDG&E correctly points out that imposing the same tier differential on CARE rates as the non-CARE rates results in an additional discount for upper tier CARE rates. SDG&E's alternate treatment, as approved by D.15-07-001, exempts CARE customers from Department or Water Resources Bond Charge (DWR-BC), California Solar Initiative (CSI) and the CARE surcharge, and then applies a 35% line item discount to each tier. The resulting summer rates of $0.114 for Tier 1 usage and $0.245 for Tier 2 usage are approved, as are the corresponding winter rates (as illustrated in the bottom half of Table C).[14]

Finally, SDG&E posits that the resolution offers no long-term solution to the question of how to balance tier collapse with the need to protect lower tier customers from extreme price increases, and provides its own interpretation of the mandates of the decision for glidepath implementation. We direct SDG&E to the email Ruling of ALJ McKinney in this proceeding dated March 14, 2016 that sets out a process for dealing with this situation going forward. In that ruling, which we explicitly endorse, ALJ McKinney ruled with respect to proposed glidepath rates that: "[i]f the new rates do not exactly match the glidepath [as set out in the decision], a Tier 2 AL must be filed. The Tier 2 AL must include the required worksheets and sufficient workpapers for Energy Division staff and other parties to quickly determine if the proposed rate change complies with the requirements of D.15-07-001. The Tier 2 AL must also describe why the D.15-07-001 glidepath could not be followed, and must be filed at least 45 days prior to the planned effective date." This ruling anticipates the issues raised by SDG&E, and allows for a flexible response to these issues going forward that will take into account the views of any interested parties to the proceeding. SDG&E's proposed revisions to the rate reform decision are rejected. SDG&E has not filed a petition to modify the rate reform decision and we decline to interpret their comments on a draft resolution as such. We encourage SDG&E to work with Energy Division, ORA and any other interested party on the future of its glidepath implementation and provide those parties with sufficient notice to avoid the uncertainty that concerns SDG&E.

SDG&E points out that the Draft Resolution did not provide an implementation date for the glidepath rate changes, and requests July 1, 2016. SDG&E's request to implement the rate changes in this Resolution on July 1, 2016 is approved.

ORA filed comments in support of the Draft Resolution. Specifically, ORA notes that the proposed solution in the Draft Resolution allows SDG&E to make progress in changing the tiered structure while mitigating impacts to Tier 1.

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[14] SDG&E Comments at 10.

FINDINGS

1. Our analysis in this resolution applies only to SDG&E's 2016 rate reform changes and does not necessarily apply to any other investor-owned utility.

THEREFORE IT IS ORDERED THAT:

1. San Diego Gas & Electric Company's (SDG&E's) proposal for changes to the non-CARE tier compression glidepath is approved as outlined in this resolution.
2. SDG&E's CARE rate proposal is approved as outlined in this resolution.
3. SDG&E must file a supplement to AL 2861-E with revised tariff sheets reflecting the rates as outlined in this resolution.
4. SDG&E will implement the rates as outlined in this Resolution on July 1, 2016.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on May 26, 2016; the following Commissioners voting favorably thereon:

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TIMOTHY J. SULLIVAN
Executive Director